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ABSTRACT

Information is provided on early and phased retirement plans of about 20 academic institutions. Eligibility requirements for participation in early retirement plans vary from campus to campus. Most plans have a requirement ranging from a minimum of 10 to 20 years of full-time (or part-time equivalent) service. There are basically two types of application procedures: long-term and short-term. Severance pay is probably the most significant benefit for both the academic institution and the retiree, and is usually the most costly program component. Most of the institutions that were surveyed covered the early retiree's full health insurance cost, including that of spouse and dependents, until the age of normal retirement or death. Annuity plans for faculty members vary widely; six possible options were identified. Other early benefits were also assessed. A table is presented that shows the components of early retirement plans at 10 colleges and universities, including the name and enrollment of the institution, eligibility requirements, annuity provisions, application procedures, severance pay, health insurance, life insurance, and other benefits. Components of phased retirement plans are also briefly outlined. (SW)

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NACUBO REPORT: EARLY AND PHASED RETIREMENT.

Debra Covert-McGrath

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Business Officer

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nacubo report: early and phased retirement

Phased and early retirement programs are becoming increasingly popular on college and university campuses. The movement toward earlier retirement can be seen in a recent study by TIAA, in which the trend is clearly toward a younger retirement age (see Part 1 of this report in the May *Business Officer*, page 15).

In order to evaluate retirement offerings to faculty members or to initiate an early retirement plan, an administrator must review several components of early and phased retirement plans already in place. Briefly, early and phased retirement plans are vehicles for faculty members to take full or partial retirement prior to the normal or mandatory retirement age. These plans usually provide for severance pay or partial salary, health and life insurance, and other benefits. An early retirement option provides for full retirement, while phased retirement provides for continued partial (but phased out) employment with the academic institution.

This article is based on the early or phased retirement plans of approximately twenty academic institutions. Information was gathered through reading actual plans and by direct contact with the institutions.

(It is important to note here that an early or phased retirement plan may be affected by current social security law, the Employee Retirement Income Security Act, or by state and local law. Although this article discusses "model" plans, no plan can actually serve as a complete model for another institution. If a college or university chooses to develop an early retirement plan, it should do so only after consulting legal counsel.)

Early Retirement Plans

Eligibility requirements for participation in early retirement plans vary from campus to campus, depending on the size of the institution, the size and retirement needs of faculty, the institutional need to reduce employment costs, and/or the desire to bring in new and younger faculty. Most plans have a requirement ranging from a minimum of 10 to 20 years of full-time (or part-time equivalent) service that usually includes approved sabbatical leaves, but does not include any period of leave without pay. Normally, faculty members must be tenured in order to participate. Eligible age ranges also vary, e.g., at least 50 years but not more than 65 years, or at least 55 years but not more than 70 years.

Application Procedures. There are basically two types of application procedures—long-term and short-term. Most applications begin with a written request or a notice of intent sent by the applicant to his or her appropriate dean or department head, who then countersigns the document and forwards it to the personnel department. In some cases an early retirement committee must approve the request as well. Some institutions reserve the right to delay the early retirement request for up to a period of one year if it is anticipated that a replacement for the faculty member may be difficult to find.

As noted previously, the biggest difference in all of the sampled programs is the amount of lead time prior to program participation. Short-term procedures require application to the program anywhere from 90 days to one year in advance of the desired early retirement date. Long-term procedures require four to ten years notice. One college withdraws its early retirement benefit option from a faculty member who declares the intent to retire but changes his or her mind during the ten-year waiting period. Another long-range plan offers annual incentive allowances for early retirement notification up to three years notice is required.

Severance Pay. This is probably the most significant benefit for both the academic institution and the retiree. It is usually the most costly program component. The amount of severance pay ranges from generous early retirement benefits (usually as an incentive) to minimal payments.

One college provided severance pay at 125 percent of the faculty member's last annual base salary in which the effective date of retirement occurred between age 55 and 62. After an active faculty member passes age 62, the severance payment decreases annually to 100 percent at age 67. Regardless of retirement age, this plan provides severance payments (up to age 70) over a period of three years in three equal installments.

Other plans are vastly different. Part of the difference stems from varying definitions of normal retirement age. The last annual base salary is typically the determining factor in the amount of severance pay, which is computed on a percentage basis in relation to base salary. Some benefits begin at the normal retirement age and continue for a fixed number of years. Others have benefits expiring when the participant reaches the normal retirement age. Most programs terminate on the last day of the month during which the participant's death occurs, but a few programs make continued payments to the surviving spouse or to the participant's estate.

The timing of payments varies from institution to institution. The majority of programs make payments to the participant on a monthly basis in equal increments, but one program makes payments by annual lump sums. An annual inflation adjustment is a feature of some programs. The average maximum duration of the twenty plans analyzed for this article was a period of five years.

Health Insurance. Most institutional plans reviewed for this article cover the early retiree's full health insurance cost, including that of his or her spouse and eligible dependents, until the age of "normal retirement" or death, whichever occurs first. At age 65, participants are eligible for medicare, which can bring a decrease in the paid coverage. Some programs call for a sharing of medical insur-

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Components of Early Retirement Plans

The following table shows the basic elements of early retirement plans from ten colleges and universities. All plans are from independent institutions (public institutions are bound by diverse state laws that preclude their inclusion).

Readers are cautioned that conditions and qualifications related to the various provisions have been omitted for reasons of space. The table is meant to provide only an outline of the basic components of early retirement plans. In any case, institutions that chose to develop programs should do so only under the guidance of counsel.

Institutions developing plans must be careful to establish a normal retirement age (usually, but not always, 65) so that planned benefit reductions may be targeted for that time.

To receive the actual plans for more extensive review, please send a self-addressed stamped ($2.07) 9 × 12-inch envelope to NACUBO's Information Exchange.

Institution	Eligibility	Annuity Provisions	Application Procedures
Four-year, midwest (FTE: 3,755)	12 years full-time service and between age 62 and 67	No contributions to TIAA-CREF after retirement	Written notification to the academic dean by January 15 before retirement
Four-year, east (1,813)	No years of service requirement	Contributions to TIAA-CREF at various levels, based on retirement age	Letter of intent at age 52
Four-year, midwest (1,187)	15 years full-time service and age 63 or older	If under age 65, 10 percent of the salary paid to TIAA-CREF until age 65	Written notice to appropriate dean
Four-year, midwest (981)	20 years of full-time service and after the academic year in which he or she becomes age 62, 63, or 64	10 percent to monthly early retirement payments if retiree elects TIAA-CREF at retirement	Not available
Four-year, midwest (2,809)	10 years of full-time service and age 60	No contributions to TIAA-CREF	Notice to personnel director
Four-year, midwest (6,685)	15 years full-time service and full-time at the university for 10 years preceding age 62	No contributions to TIAA-CREF	Letter to president between Sept. 1 and Dec. 1 preceding academic year in which retirement will occur
Four-year, west (13,784)	15 years full- or part-time service and between age 62 and 70	No contribuitons to TIAA-CREF	Written request to the dean one year in advance of retirement date
Four-year, east (22,317)	Tenured faculty members (any rank) and either age 68 or 70	No contribuitons to TIAA-CREF	Written notice to the dean no later than October 15 of year in which retirement is planned
Four-year, east (29,358)	10 years of service and between age 62 and 69	Various levels of continued contributions	Written notice 6 months in advance of retirement
Four-year, east (3,006)	10 years full-time service and age 62	Not available	Notice 30 days prior to the applicable July 1 (for academic year of retirement)

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ance costs between institution and individual program participants, while most institutions pay for this coverage in full for the agreed duration time. There is often a clause in the health-care benefit component of early retirement programs that reduces or eliminates institutional payments for partial coverage if there is duplicate coverage through another job or through a spouse's employment health care plan.

Life Insurance. The possible options for institutional payment of life insurance are as follows:

1. provide no coverage payments after early retirement;
2. allow participant to enter college's plan at his own expense;
3. provide coverage payments until early retiree reaches normal retirement age; or
4. provide coverage payments until early retiree reaches mandatory retirement age and/or beyond.

Severance Pay	**Health Insurance**	**Life Insurance**	**Other Benefits**
Various percentages of final salary based on retirement age	**Contributions at same level until age 65**	**Coverage ceases**	**Tuition remission, possible reemployment**
Various levels, for example: retirement at age 62 with TIAA-CREF benefits that would be paid at age 65, and with 7 percent yearly salary increases between age 62 and 65	Contributions in full until age 65	Coverage until age 65	None listed
55 percent of final base salary with annual increments	Contributions until normal retirement age	Coverage until normal retirement age	None listed
Various levels, for example: if retiree elects TIAA-CREF retirement income at early retirement, college will add 10 percent to monthly early retirement payments	Contributions in full until age 65	Coverage to age 65	Free admission to campus activities
50 percent of average base salary during the three years prior to retirement	**Contributions at two-thirds if employee contributes one-third**	**Participation in plan during the early retirement period**	**Retirement benefit inflation adjustment**
35 percent, per year, of final contract salary	Retiree may continue in plan on reimbursement basis	Coverage for as long as early retirement payments are in force	Possibility for part-time teaching
Various levels	**Contributions until mandatory retirement age**	**Coverage until mandatory retirement age**	**None listed**
27 percent of final base salary with added percentage increases for early retirement in advance of the normal age	Supplementary coverage for life	Coverage until mandatory retirement age	None listed
Various levels, up to a maximum of $50,000 per year	Participant and spouse coverage until age 65, supplementary coverage after age 65	Coverage at various levels based on percentage formulas	Eligible for various educational benefits
Various percentages of final salary based on age and years of service	Group coverage until age 68	Coverage until age 68	None listed

The amount of life insurance coverage for which the college or university pays depends on either the rate of coverage for regular faculty members or on the last annual base salary rate of the retiree.

Annuity Plans. Annuity payments for college and university faculty members vary widely. There are a number of possible options to pursue. They include:

1. no contribution to the annuity plan after early retirement and/or "normal retirement" age;
2. total contributions to the annuity plan after early retirement;
3. same as "2" above while also providing a social security supplement over a fixed period of time;
4. 10 percent contribution to annuity plan by retiree, 90 percent by institution;
5. provide retiree with the option of receiving annuity plan income at time of retirement and/or at "normal retirement" age; or
6. retiree makes all payments to annuity (sometimes by payroll deduction) if he or she desires continued coverage. Many of these plans are subject to the terms of the annuity plan, such as TIAA-CREF. IRS regulations apply in all cases.

Other Benefits. A smorgasbord of other early retirement benefits exist and their diversity is evident from institution to institution. The following list covers some of the more popular benefits provided to participants at little or no cost:

1. disability benefits;
2. tuition remission for retiree and dependents;
3. free admission to campus activities for retiree and dependents;
4. major medical plan;
5. one-time lump sum in addition to severance pay as retirement incentive;
6. preretirement planning program.

Most early retirement plans provide no opportunity for full-time reemployment with the institution. Some plans make it possible for the retiree to seek other employment elsewhere, including on-campus part-time work, but these employment conditions may effect the various benefit levels.

Age	*Years of Continuous Service*
55	30
56	25
57	20
58	15
59	10
60 to 70	5

Phased Retirement Plans

Eligibility requirements, like those for early retirement, vary from institution to institution. Most programs require at least 10 years of full-time service for tenured faculty members while covering eligible employees age 60 to 70. One program was set up to provide the phased option to somewhat younger workers. The plan is shown above.

Application Procedures. Of the plans analyzed here, only short-term application procedures were found. One plan requested a year's advanced notice prior to program participation, while all others requested 90 days prior notice before the annual or semi-annual plan agreement dates. The actual application procedure begins with the faculty member. The faculty member signs a participation agreement form and forwards it to the appropriate department chairman or dean. The form may then need approval from a phased retirement committee or it may be forwarded directly to the personnel office for processing.

Assignment and Compensation. There are a variety of possible assignments for the part-time program participant. One program sets up a mutually agreeable set of duties and appointment dates that are the equivalent of at least half-time employment. Another plan offers the option of consistent part-time employment or a combination of full-time work with full-time leisure.

Salary scales are also different from plan to plan. One program bases its pay scale on a six-hour work day. The maximum amount that the plan allows part-time employees to earn is the maximum amount allowable by social security before a reduction in benefits occurs. This is called the Social Security Exempt Amount (SSEA). Another plan disregards the SSEA and bases compensation solely on a pro-rated equivalency to the percentage of full-time base salary. Participants are eligible for salary increases as though they were working full-time. This program also allows for a reduction in working time if the participant desires more nonworking time. The salary is then adjusted accordingly.

Health Insurance. All of the programs surveyed continued full health insurance coverage at no cost to the participant. Some institutions included full coverage payment for spouse and dependents, while others had the option of continued spouse and dependent coverage through salary deductions.

Life Insurance. All plans cover full life insurance benefits for the participant for the duration of the agreement. Some plans offer additional optional life insurance to be paid for by the participant.

Annuity Plan. This payment coverage is different for almost every institution. One plan eliminated eligibility for its tax defered annuity plan, but paid in full the TIAA-CREF contribution. Another continued payments to its annuity plan based on the participant's pro-rated salary. The participant then had the option of purchasing additional coverage. During phased retirement, some annuity plans permit either full or partial payments to recipients.

Other Benefits. There are a number of optional benefits provided by academic institutions to participants. They include all of the "other benefits" listed under the early retirement plan section of this article as well as vacation and sabbatical leave benefits. All plans surveyed provide no option to return to permanent, full-time status with the college or university after opting for phased retirement.

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